

PUBLIC DISCLOSURE

AUGUST 23, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

ECONOMY CO-OPERATIVE BANK

6 WEST MAIN STREET
MERRIMAC, MA 01860

DIVISION OF BANKS
One South Station
Boston, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Economy Co-operative Bank prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

Economy Co-operative Bank was deemed to have a Satisfactory CRA rating based on its performance under the criteria detailed throughout this report.

Taking into account the small number and amount of home mortgage loans, Economy Co-operative Bank has demonstrated reasonable responsiveness to credit needs within its assessment area. It should be noted that little weight was placed on the geographic distribution of loans, since the assessment area is comprised of only one middle-income census tract. The bank's loan to deposit ratio was considered to exceed the standards for satisfactory performance. The bank's distribution of loans among individuals of different income levels, as well as the bank's percentage of loans inside the assessment area was both considered reasonable.

PERFORMANCE CONTEXT

Description of Institution

Economy Co-operative Bank was incorporated under the laws of the Commonwealth of Massachusetts in 1889. Economy Co-operative Bank has one office located at Six West Main Street, Merrimac Massachusetts. The bank is primarily a residential mortgage lender with its portfolio centered in 1-4 family residential real estate loans.

The bank currently employs four full-time individuals and four part-time individuals. Office hours are convenient and accessible to the residents of Merrimac. During the week the bank is open from 8:00 am to 5:00 pm, except Wednesday when the bank closes at 12:00 pm. The bank offers Saturday banking hours from 9:00 am to 12:00 pm. The bank also allows customers to access their accounts through Automated Teller Machines (ATMs). Debit cards are issued to the bank's customers, providing them with 24-hour access to the X-Press 24, NYCE and Cirrus networks. In June 1999, the bank opened up a drive-up window to make banking easier for customers.

Economy Co-operative Bank offers various types of lending products such as adjustable-rate mortgage loans, fixed-rate mortgage loans, automobile loans, passbook loans, home modernization loans and home construction loans.

As of June 30, 1999, Economy Co-operative Bank had total assets of \$15.5 million with total loans representing \$12.8 million or 82.9 percent of total assets. The following table details the bank's loan portfolio as a percent of average gross loans. This information was obtained from the Uniform Bank Performance Report (UBPR) as of June 30, 1999.

<i>Loan Portfolio as of June 30, 1999</i>	
Type of Loans	% of Average Gross Loans
Construction & Land Development	1.1%
Residential Real Estate	
a. 1-4 Family Mortgages	90.7%
b. Home Equity Lines	0.0%
Multifamily	0.0%
Commercial Loans	
a. Commercial Real Estate	2.9%
b. Commercial & Industrial Loans	0.0%
c. Agricultural Loans	0.0%
Consumer Loans	
a. Credit Cards & Related Plans	0.0%
b. Loans to Individuals	5.4%
Other Loans	
a. Loans to Financial Institutions	0.0%
b. Municipal Loans	0.0%
c. Farmland Real Estate Loans	0.0%
d. Other	0.0%
Total	100.0

Source: Uniform Bank Performance Report (UBPR 6/30/99).

As shown by the data in the table above, residential real estate is the bank's primary form of credit activity. Loans secured by one-to-four family residential property account for approximately 90.7 percent of all outstanding credit. Loans to individuals are next with 5.4 percent, followed by commercial real estate with 2.9 percent.

It should be noted that because of the bank's small asset size they are not required to report loans under the Home Mortgage Disclosure Act. However, the bank keeps its own Loan Application Register (LAR) which was verified for accuracy during the examination. The LAR consists of home purchase loans, home improvement loans and refinances on both one-to-four family and multifamily (five or more) properties. This data allowed for a comparison with other HMDA-reporters in the assessment area.

The most recent Community Reinvestment Act (CRA) evaluation, performed by the FDIC as of July 21, 1998 assigned a rating of "Satisfactory". The previous evaluation performed by the Commonwealth of Massachusetts as of October 31, 1996 also assigned a rating of "Satisfactory".

Description of Assessment Area

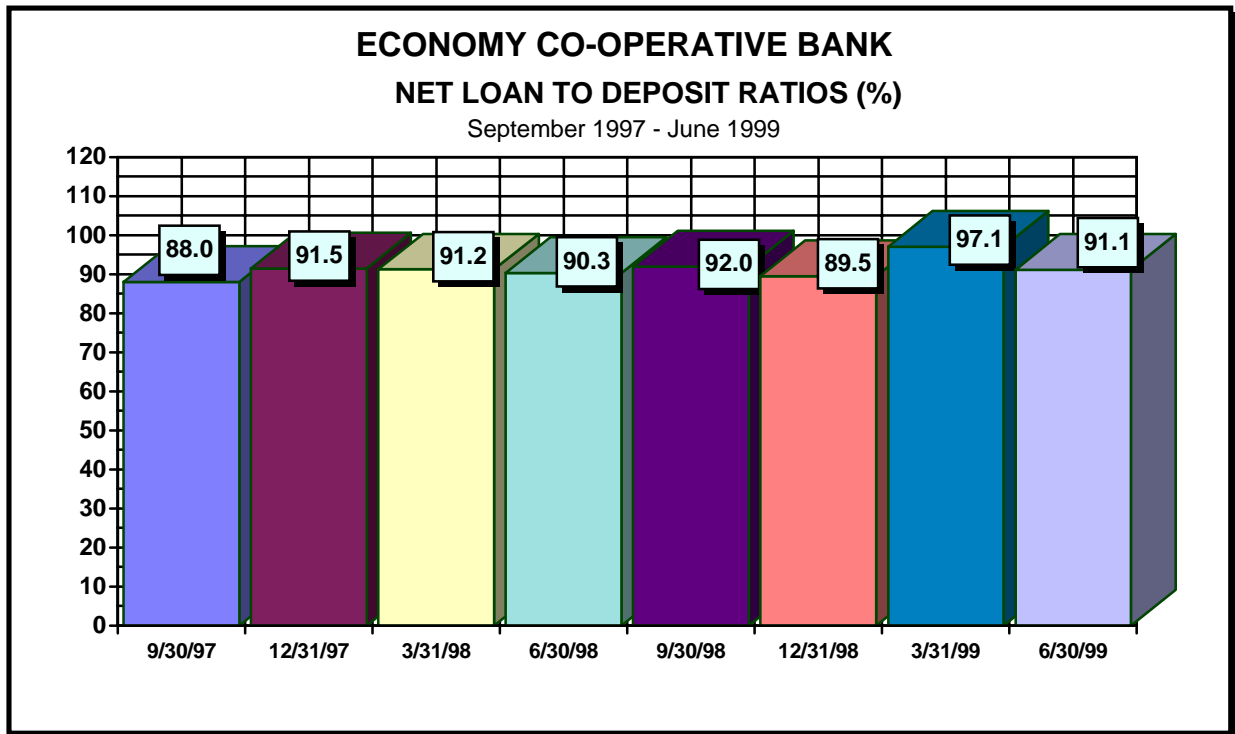
Economy Co-operative Bank defines its assessment area as the Town of Merrimac, which is situated near the New Hampshire border and is easily accessible from both Interstates 495 and 95. The town is located within Essex County and the Lawrence Metropolitan Statistical Area (MSA). The total population according to 1990 Census data is 5,194.

The assessment area consists of one middle-income census tract. According to 1990 Census data, the median household income in the assessment area is \$41,019. There are 2,030 housing units within the assessment area, of which 73.6 percent are owner occupied, 20.9 percent are rental, and 5.5 percent are vacant. The median home value of the assessment area is \$155,300.

PERFORMANCE CRITERIA

1. NET LOAN TO DEPOSIT ANALYSIS

Economy Co-operative Bank's average net loan to deposit ratio was calculated by using the data reported in the previous eight quarterly FDIC Call Reports. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits. The bank's average net loan-to-deposit ratio for the period of September 30, 1997 through June 30, 1999 is 91.3 percent. At the previous state examination on October 31, 1996, the average net loan to deposit ratio was calculated to be 83.0 percent. The asset size of the institution has increased from \$14.2 million as of June 30, 1998 to \$15.5 million as of June 30, 1999. During this time, net loans increased approximately 8.7 percent, while deposits increased by approximately 7.7 percent. As indicated in the table below, the bank's net loan to deposit ratio stands at 91.1 percent as of June 30, 1999. The following graph depicts the net loan to deposit ratio for each quarter under review.



The following table compares the net loan-to-deposit ratio of three other institutions in the area. The ratios for March 31, 1999 ranged from 97.1 percent to 43.3 percent. Economy Co-operative Bank's is ranked first with a net loan-to-deposit ratio of 97.1 percent. The following table provides the net loan-to-deposit ratio for the other banks. The ratios shown are calculated from the FDIC's Call Report data for March 31, 1999. The institutions are listed with the net loan-to-deposit ratios in descending order.

INSTITUTION	NET LOAN TO DEPOSIT RATIO (3/31/99)
Economy Co-operative Bank	97.1%
Amesbury Co-operative Bank	70.3%
Haverhill Co-operative Bank	65.7%
Merrimac Savings Bank	43.3%

Based on the above information, the bank's asset size and resources, competition, and the credit needs of the assessment area, the bank's net loan to deposit ratio is considered strong and exceeds the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA

Economy Co-operative Bank's 1998 and 1999 year-to-date (through August 18th) Loan Application Registers (LARs) were reviewed to determine the amount of credit extended within the bank's delineated assessment area. During the above period, the bank originated 81 mortgage loans totaling approximately \$7,007,000. Of this amount, 47 loans, or 58.0 percent of the number, totaling \$4,256,000, or 60.7 percent of the dollar amount, was originated in the bank's assessment area.

Refer to the following tables for additional information regarding the bank's lending, by both number and dollar amount.

Residential Loans by Number of Originations

Location	1998		1999-YTD		Totals	
	#	%	#	%	#	%
Merrimac	33	56.9	14	60.9	47	58.0
Outside Assessment Area	25	43.1	9	39.1	34	42.0
Total	58	100.0	23	100.0	81	100.0

Source: Economy Co-operative Bank's LAR Data for the period 1/1/98 to 8/18/99

Residential Loans by Dollar Amount of Originations

Location	1998		1999-YTD		Totals	
	\$ (000)	%	\$ (000)	%	\$(000)	%
Merrimac	3108	59.0	1148	65.9	4,256	60.7
Outside Assessment Area	2158	41.0	593	34.1	2,751	39.3
Total	5266	100.0	1741	100.0	7,007	100.0

Source: Economy Co-operative Bank's LAR Data for the period 1/1/98 to 8/18/99

As indicated in the above tables, the majority (58.0 percent by number and 60.7 percent by dollar amount) of loans, in 1998 and year-to-date 1999, were originated inside the bank's assessment area.

Based on the above information, it is evident that a reasonable number and dollar amount of the bank's loans have been extended within its assessment area. Therefore, the institution's level of lending within its assessment area is considered to meet the standards for satisfactory performance.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The bank's residential loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family income for the Lawrence Metropolitan Statistical Area (MSA). These income figures are based on estimated Department of Housing and Urban Development (HUD) information. Refer to the following table for a breakdown of the estimated 1997, 1998 and 1999 HUD income information.

MSA	1997	1998	1999
Lawrence	55,800	56,700	57,900

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following tables show, by number and dollar amount, loans to low, moderate, middle and upper-income borrowers in comparison to the number of family households in the assessment area in each respective income group.

Distribution of Residential Loans within the Assessment Area to Borrowers of Different Income Levels by Number

Borrower Income Level	Family Households		1998		1999-YTD		Total	
	#	%	#	%	#	%	#	%
< 50%	210	14.2	0	0.0	1	7.1	1	2.1
50 - 79%	319	21.6	4	12.1	2	14.3	6	12.8
80 - 119%	444	30.1	13	39.4	2	14.3	15	31.9
> = 120%	504	34.1	16	48.5	9	64.3	25	53.2
Total	1,477	100.0	33	100.0	14	100.0	47	100.0

Source: Economy Co-operative Bank's LAR Data for the period 1/1/98 to 8/18/99

**Distribution of Residential Loans within the Assessment Area to Borrowers of
Different Income Levels by Dollar Amount**

Borrower Income Level	Family Households		1998		1999-YTD		Total	
	#	%	\$ (000)	%	\$ (000)	%	\$ (000)	%
< 50%	210	14.2	0	0.0	3	0.3	3	0.1
50 - 79%	319	21.6	319	10.3	40	3.5	359	8.4
80 - 119%	444	30.1	884	28.4	84	7.3	968	22.7
> = 120%	504	34.1	1,905	61.3	1,021	88.9	2926	68.8
Total	1,477	100.0	3,108	100.0	1,148	100.0	4256	100.0

Source: Economy Co-operative Bank's LAR Data for the period 1/1/98 to 8/18/99

In 1998 and 1999 year-to-date, the bank extended 1 loan to a low-income borrower representing 2.1 percent by number and 0.1 percent by dollar amount of the bank's total loans in the assessment area. Additionally, the bank extended 6 loans to moderate-income borrowers, representing 12.8 percent by number, as shown above. These loans represent 8.4 percent by dollar amount of the bank's total originations within its assessment area.

While both percentages fall short of the number of low and moderate-income households within the assessment area, they were more than comparable to lending by aggregate lenders within the assessment area as the following discussion indicates.

The distribution of the bank's loans among various borrower income levels was also compared to HMDA-reportable lenders in the assessment area. HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions and mortgage companies. It is important to note that at the time of the examination, aggregate data for 1998 was not available. Therefore the analysis is based on calendar year 1997 data and is presented in the following table.

1997 Lending in the Assessment Area to Borrowers of Different Income Levels
Economy Co-operative Bank Compared to HMDA-Reporters

Borrower Income Level	Number of Loans				Dollar Amount of Loans			
	Economy Co-operative Bank		HMDA-Reporters in Assessment Area		Economy Co-operative Bank		HMDA-Reporters in Assessment Area	
	#	%	#	%	\$(000)	%	\$(000)	%
< 50%	0	0.0	6	2.2	0	0.0	519	1.5
50 - 79%	2	16.7	32	11.6	175	17.5	2,380	6.9
80 - 119%	6	50.0	91	33.0	503	50.4	10,399	30.3
> = 120%	4	33.3	110	39.8	320	32.1	16,281	47.4
NA	0	0.0	37	13.4	0	0.0	4,764	13.9
Total	12	100.0	276	100.0	998	100.0	34,343	100.0

Source: HMDA Data/ Economy Co-operative Bank's LAR for the period 1/1/97 to 12/31/97.

In 1997, the bank made no loans to low income borrowers within the assessment area. However, this distribution is not considered unreasonable when compared to the aggregate, which only had 2.2 percent by number and 1.5 percent by dollar amount to low-income borrowers.

Economy Co-operative Bank's distribution of loans to moderate-income borrowers accounted for 16.7 percent by number and 17.5 percent by dollar amount of the total loans in the assessment area. This percentage exceeded that of the aggregate, which granted 11.6 percent of total loans by number and 6.9 percent by dollar amount to moderate-income borrowers.

The distribution of lending by borrower income in comparison to the number of family households and the aggregate demonstrates the bank's willingness to lend to borrowers of all income levels, including those of low and moderate-income. Therefore, Economy Co-operative Bank's lending distribution by borrower income levels is considered to meet the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

In evaluating an institution's CRA performance, loans located within the institution's assessment area are analyzed to determine their dispersion by census tract income level. However, because the bank's assessment area consists of only one middle-income census tract, an analysis of the geographic distribution of loans would not be meaningful. Accordingly, this criterion was given very little weight in this evaluation.

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Based upon the review of the bank's public comment file and its performance relative to fair lending policies and practices the institution meets the standards for satisfactory performance.

REVIEW OF COMPLAINTS

A thorough review of the public comment file revealed that the bank received no complaints pertaining to its CRA performance since the previous examination.

FAIR LENDING POLICIES AND PRACTICES

Detailed below is Economy Co-operative Bank's fair lending performance as it correlates to the guidelines established by Regulatory Bulletin 2.3-101, the Division of Banks' Community Reinvestment and Fair Lending Policy.

STAFF TRAINING

The bank's employees view videos provided by Bankers Systems Inc. on a quarterly basis. The videos deal with a variety of issues including diversity and fair lending. In addition, employees are informed of any changes in the regulation.

STAFF COMPOSITION AND COMPENSATION

Economy Co-operative Bank has a staff of four full-time and four part-time employees, none of whom are minorities.

The bank's loan originator is not compensated on a commission basis, thereby encouraging loans of all amounts including those to low and moderate-income individuals.

OUTREACH

Economy Co-operative Bank ascertains the credit needs of the assessment area through active involvement in numerous community organizations located in the Town of Merrimac and in the surrounding area.

CREDIT PRODUCTS AND UNDERWRITING STANDARDS

The bank evaluates both the products it offers and its product mix on a continuing basis. This analysis is conducted to help determine whether the bank is offering competitive products and whether those products are responsive to the credit needs of the assessment area.

MARKETING

Economy Co-operative Bank's advertising reaches individuals of all income levels and effectively covers the entire delineated assessment area.

CREDIT EDUCATION

The bank has not participated in any formal credit education seminars since the previous examination.

COUNSELING

Economy Co-operative Bank refers all loan customers whose home loan is delinquent to the appropriate credit counseling services available in the area. In addition, the bank's President is willing to work with any customers that are experiencing credit difficulties.

SECOND REVIEW PRACTICES

The bank does not have a formal written second review procedure, however, the bank has not denied any real estate mortgage loans since the previous examination.

INTERNAL CONTROL PROCEDURES

The bank's President reviews the bank's loan application register in order to monitor the distribution of loans within the assessment area. In addition, each loan is approved by the bank's Security Committee, which is comprised of three members of the Board of Directors.

MINORITY APPLICATION FLOW

A review of residential loan applications was conducted in order to determine the number of applications the bank received from minorities. In 1998 and year-to-date 1999, the bank received 81 residential loan applications from within its assessment area. During this period, the bank received 8 applications or 9.9 percent of total loans in which the co-applicant was a minority.

According to 1990 Census Data, the bank's assessment area contained a total population of 5,194 individuals of which 0.7 percent are minorities. By comparison, Economy Co-operative Bank's minority application flow is well above the percentage of minorities within the assessment area.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

ECONOMY CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **AUGUST 23, 1999**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 19 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.